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SENSITIVE

DEPT FOR EAP/TC, H-LMO Peter Su
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SUBJECT: President Chen Tells Congressman Mark Kennedy He Will Promote Special Military Budget

1. (SBU) Congressman Mark Kennedy from Minnesota's Sixth District met with Taiwan President Chen Shui-bian June 5 during a two-day trip to Taiwan. Kennedy praised Taiwan opening its beef market to U.S. imports and progress on the protection of intellectual property. He recommended relaxation of government regulations that restrict businesses, especially their cross-Straits activities. Congressman Kennedy also urged President Chen to ensure the passage of Taiwan's Special Defense Procurement Budget. President Chen reaffirmed his commitment to the Special Budget and pledged to use upcoming television appearances to promote it. End Summary

2. (SBU) President Chen began the meeting with Congressman Kennedy by expressing appreciation for his support of Taiwan in the House of Representatives. He noted Congressman Kennedy's positions on Taiwan participation in the World Health Assembly, the European Union's proposal to lift its embargo on arms sales to the PRC, the PRC's Anti-Secession Law, and other Taiwan-related issues. Congressman Kennedy in turn praised Taiwan's close relationship with the United States, its support for democracy and embrace of free markets. He underscored U.S. appreciation for Taiwan reopening its beef market to U.S. exports. He also complimented Taiwan's progress on the protection of intellectual property (IP), noting that he had visited a Taipei night market the previous evening and found scant evidence of counterfeit goods in marked contrast to rampant IP violations in a Beijing market he had visited earlier in his trip. He asked President Chen to ensure that Taiwan makes further progress on market access for U.S. goods, emphasizing medical products, which are produced in large numbers in Minnesota.

3. (SBU) Congressman Kennedy also asked President Chen to remove unnecessary regulations that impede business in Taiwan. He noted that Taiwan, like the United States, is working on finding ways to stay competitive economically as economies like China with the advantage of low wages grow rapidly. He remarked that Taiwan was a very easy place for Americans to live, and Taiwan could further capitalize on that advantage in attracting investment by relaxing some regulations. As an example, he explained that his son would be working a paid internship with Caterpillar Corporation in Beijing this summer. However, under current Taiwan regulations, foreign students were unable to obtain this kind of paid internship. Congressman Kennedy also commented that restrictions that limit the amount of investment a Taiwan-based company can invest in the Mainland also have a negative effect on Taiwan's investment environment.

4. (SBU) President Chen assured the Congressman that his administration was working on these and related concerns. He noted that the following day he would meet with music industry leaders and assure them of his commitment to the protection of intellectual property rights. He also welcomed the resumption of Trade and Investment Framework Agreement (TIFA) discussions in late 2004 and reiterated Taiwan's interest in seeing these lead to discussion of a free trade agreement.

5. (SBU) Regarding Taiwan's Special Defense Procurement Budget, which would allocate funding to purchase USD 18 billion worth of weapons from the United States, Congressman Kennedy expressed U.S. concern that the passage of this legislation was taking so long. He explained that in the United States, political parties have a tradition that partisan differences end at the border. He urged President Chen to work towards resolving the political controversy surrounding the Special Budget and ensure its passage. He pointed out that he had delivered a similar message to Legislative Yuan Chairman Wang Jin-pyng the previous day. Congressman Kennedy also noted that some critics of the weapons purchase believe that it is unnecessary because the United States will defend Taiwan. He asked that Taiwan not take U.S. assistance for granted.

6. (SBU) President Chen reaffirmed his commitment to defend Taiwan and assured Congressman Kennedy that all Taiwan people, regardless of political affiliation, are committed

to Taiwan's security. He said that Taiwan would shoulder the burden of its defense and not shift that burden to the United States. According to President Chen, those who oppose the Special Budget are not counting on the United States to defend Taiwan. Instead they believe that the PRC will not attack Taiwan and that Taiwan can therefore disarm. He stated that he does not want an arms race with the PRC; he wants to prevent war. He argued that by being ready for war, Taiwan could have hope for a permanent peace. He expressed his goal of seeking a permanent peace across the Taiwan Strait and his plan to increase Taiwan's defense expenditures to 3 percent of GDP.

17. (SBU) President Chen described in detail the timing of the various weapons purchase proposals and their approval by the U.S. government in order to emphasize that they were originally put forward by the Kuomintang (Nationalist) Party (KMT) administration that preceded Chen's Democratic Progressive Party (DPP) administration. He commented that the two major opposition parties had changed their positions and currently opposed the Special Budget for various political reasons that had changed over time. First, the opposition parties looked for advantage in the December 2004 Legislative Yuan elections; then they sought Chinese approval to smooth the way for the visits of Lien Chan and James Soong to the PRC; and most recently, the Special Budget had become an issue in the campaign for chairman of the KMT. President Chen speculated that with the fading influence of the "China fever" that ensued in Taiwan following the Lien and Soong visits and following July's KMT chairmanship election there would be an improved political environment for passage of the Special Budget. He pledged to push for the passage of the Special Budget in upcoming television appearances and other planned media events.

18. (U) Congressman Kennedy's office has cleared this message.

PAAL